

BROOKINGS

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Mr. Chairman and members of the Committee, I’m very grateful for the opportunity to discuss the prospects and implications of sanctions as a tool for influencing the policies of the Islamic Republic of Iran.

Less than a year after the Obama administration began its tenure with unprecedented overtures aimed at engaging Tehran in a comprehensive diplomatic dialogue, the discourse in Washington and around the world has already shifted away from engagement toward an enthusiastic embrace of punitive measures. In no small part, this shift can be attributed to the dramatic developments within Iran since its blatantly manipulated presidential election six months ago. Those developments have splintered Iran’s leadership, further alienated its people, and generated the most vigorous popular movement for political change to confront the Islamic regime since the 1979 revolution that brought it to power. Those same domestic dynamics have outraged and inspired the international community, and added new impetus to the longstanding concerns about the regime’s policies at home and abroad.

In addition, the rapid disenchantment with engagement has been fueled by Tehran’s repeated rebuffs of both the specific proposals put forward by the United States and its allies among the P5+1 as well as the overall paradigm of dialogue. Iran’s supreme leader, Ayatollah Ali Khamenei, and its infamous president, Mahmoud Ahmadinejad, have inveighed against negotiations as a deceitful ploy intended to rob Iran of its resources and rights and have scuttled a preliminary agreement initially endorsed by their own representatives that would have temporarily mitigated international concerns about Iran’s nuclear ambitions.

Given such a track record, changing course from an engagement-centric approach to one with a greater focus on economic pressure represents a clear-headed recognition of the limitations of our efforts to date and a laudable commitment to developing an effective approach for addressing the increasingly urgent concerns about Iran’s policies. Engagement was never conceived as an instant-fix for the complex and multi-faceted problems posed by Iran, and the experience of the past year has demonstrated that diplomatic overtures alone cannot overcome a bitter estrangement of three decades and the ideological imperatives of a leadership whose claims to legitimacy remain underpinned by anti-Americanism. Despite this ideology, history demonstrates that the Iranian leadership can be influenced

by the relative costs and benefits of its policy choices, and the challenge for the international community today is to ensure that the costs of continuing Iranian antagonism dramatically outweigh the benefits of accommodation.

Still, amidst the renewed clamor for coercive measures, it is important to note that sanctions do not promise inherently better results for advancing U.S. policy outcomes than any other element in the toolkit. To be blunt, three decades of increasingly restrictive economic restrictions imposed on the Islamic Republic by Washington have failed to date to achieve their stated objectives of moderating Iranian policies on the key areas of American concern. While there are promising indications of a more conducive context for sanctions today, that is no guarantee of success.

The price of embarking upon another frustrating failed approach to blunting Tehran's most destabilizing policies is not insubstantial; if sanctions fail, the available alternatives (military force or externally orchestrated regime change) portend much more dismal prospects for American interests and regional stability. The urgency surrounding Iran's nuclear program and Tehran's apparent determination to continue expanding its nuclear activities demands that the international community's revised approach to Iran is framed in such a way that maximizes its prospects for achieving even the minimalist goal of decelerating Tehran's course on this issue. Equally important, as serious discussion of more rigorous sanctions gets underway, the implications of any new measures for the future of Iran's nascent democracy movement must be considered.

In my testimony, I will briefly sketch out the factors that may facilitate the efficacy of sanctions today, while also noting the largely unimpressive track record of economic pressure in producing desired modifications in Iranian foreign policy, particularly on issues perceived by the leadership to be within its vital security interests. I will conclude by laying out a series of principles that should guide our consideration of any new coercive measures.

Why Sanctions Now: Iran's Vulnerabilities

The Obama administration signaled early on to Iran and the rest of the international community that American patience has limits and that its offers of engagement were subject to expiration. As a result, the approach of the new year has amplified the discussions surrounding new Iran sanctions, and with this increased attention has come heightened expectations for impact. To some extent, this new optimism is grounded in the reality of Iran's increased vulnerability relative to only a few years ago. This vulnerability is the function of internal politics, economic conditions, and the change in the international context.

At home, the Islamic Republic managed to withstand the historic unrest that erupted in the aftermath of the Ahmadinejad election "landslide," but with two profound schisms that have fundamentally changed the nature of the regime and its relationship with its citizenry. Among the regime's political elites whose shared investment in the revolutionary system had heretofore always trumped their ideological diversity, a breach has occurred that is probably irreparable. Some of the senior figures of the post-revolutionary era have all but defected to a quasi-opposition status. The continuing alienation of such regime stalwarts as Mir Husayn Musavi, the prime minister who ran the operations of government throughout the war with Iraq, and Akbar Hashemi Rafsanjani, the former president who has long been considered Iran's political mastermind, opens an unprecedented divide within the leadership that has festered and deepened since June. The widely-known and in some cases explicit dissatisfaction of many of the

country's most respected clerical leaders with the handling of the election and the posture of President Ahmadinejad has further undercut the religious legitimacy of the theocratic system. Some of the key institutions of state, including the Supreme National Security Committee which is responsible for the nuclear negotiations and overall foreign policy coordination, appear to be functioning in crisis mode because of the bitter differences among their principals.

On the streets, the Green Movement continues to make its voice heard, through targeted demonstrations, graffiti, and small-scale acts of civil disobedience. At present, the movement lacks clear coordination – indeed, its constituents and ostensible leaders appear to have divergent ultimate goals – and has yet to articulate a strategy for altering either the outcome of the election or addressing the broader causes for public dissatisfaction. But its persistence, even in the face of certain and fierce governmental repression, has unnerved even some of the regime's supporters, and has helped sustain a deep wellspring of domestic and international sympathy. Together, the popular unrest and the ruptures within the system's power brokers have shaken the regime and left it more susceptible to pressure than at any point in recent history, leading some to suggest that sanctions could buckle the regime and further embolden its nascent opposition.

Moreover, Iran's internal political liabilities are exacerbated by its current economic predicament. Although the Iranian economy has been chronically mismanaged in the post-revolutionary era, the boom and bust experience of the past 5 years has generated new problems, particularly spiraling inflation that has hit hardest in the pocketbooks of the poor. Iranians from across the political spectrum have vented their indignation repeatedly and quite publically at Ahmadinejad, whose quixotic economic policies have emphasized profligate spending and a disdain for the government's economic technocrats. In addition, under Ahmadinejad's direction, the shift in the balance of power in favor of the Revolutionary Guard has come at the expense of some of the regime's long-time crony capitalists, whose support was always critical to the Islamic Republic's endurance. Notably, the precarious state of the economy – and in particular, the rising prices of staple goods and other hardships suffered by the population – constituted the primary issue for all of Ahmadinejad's rivals during the presidential campaign, including the conservative former Revolutionary Guard commander Mohsen Rezaei as well as both the reformist candidates. The public's identification of Ahmadinejad with their own personal financial constraints suggests that any intensified economic pressure that results from a stepped-up sanctions regime could create unsustainable domestic political costs for the current leadership.

Outside Iran, the Islamic Republic retains potent mechanisms for making its influence felt across the region and around the world, but here too, the violence that has transpired since June – together with other factors – has eroded some of the sense of ascendancy that infused Iranian rhetoric only a few years ago. Once seen as something of a folk hero within the Arab world for his penchant for playing the anti-Israeli demagogue, Ahmadinejad has been exposed as little more than tin-pot dictator. The turmoil within Iran and the regime's crackdown against protestors and dissidents has also forged new support for intensifying pressure on Tehran in European capitals, some of which have historically proven hesitant to jeopardize their trade with Tehran over the nuclear issue or terrorism. At the same time, the Obama administration's strides in defusing its predecessor's tensions with Russia has transformed the climate for Russo-American cooperation on Iran, undercutting Tehran's traditional tactics of playing one capital against another and creating a critical mass of international pressure that has brought along countries, such as China, that typically hedged their bets. In the aftermath of Iran's chaotic handling of the proposed Tehran research reactor (TRR) deal in October 2009, the diplomatic climate for applying new pressure is unusually ripe.

The Limitations of Sanctions for Influencing Iran

All told, these internal and external factors have generated a newly conducive international context for the adoption and implementation of a far-reaching multi-lateral sanctions – a prospect that until recently appeared impossible to achieve. However, even in the current environment, there should be no illusions about the likelihood that even a more rigorous and more broadly-implemented sanctions can produce a reversal of Iran’s nuclear calculus quickly or easily. Thirty years of American sanctions should offer a sobering check on any tendency toward optimism. Examining that track record reveals that while economic restrictions have imposed a significant cost on Tehran, sanctions have not succeeded in advancing their ultimate objective, namely a transformation in Iran’s foreign and security policy despite protracted duration and comprehensive scope.

One of the main factors that has stymied the impact of sanctions to date has been the lack of international consensus. Even at the height of the hostage crisis, America’s closest European allies rebuffed U.S. entreaties to join in multilateral sanctions against Iran’s revolutionary regime, and eventually enacted only limited restrictions on trade. Since those early years, European concerns about Iranian foreign policy have yet to be matched by any parallel willingness to formally abrogate its historic economic ties. Moving forward today, despite tough talk from various European leaders and the apparent cooperation between Washington and Moscow on Iran, the prospect of expanding the playing field for sanctions will likely prove a daunting task. While the Islamic Republic’s latest human rights abuses have produced greater resolve among European publics, it remains to be seen whether the European Union as an institution will put its money where its mouth is. Similar skepticism should be applied to the Russians, who have continued to court Tehran on the one hand even as they align their rhetoric on sanctions more closely with Washington on the other.

The root cause of historical international reluctance with respect to sanctioning Iran involves the divergent perspectives on the consequences of sanctions. The typical American perspective posits a direct relationship between externally-imposed economic constraints and eventual moderation by the leadership of the target country, as a means of alleviating political pressures and preserving their regime and their system’s stability. Many of our allies, even those who are now deeply frustrated with Iranian obfuscation on the nuclear issue, tend to see sanctions as generating precisely the opposite response. They fear that once isolated from the international community, Tehran will be further radicalized and may retaliate, either via direct action against governments that adhere to the boycott or by accelerating their nuclear activities and withdrawing from the Nuclear Non-proliferation Treaty. Even in the current climate, these divergent views will complicate American efforts to gain wide adherence for tough new measures against Tehran.

The irony is that neither interpretation is borne out by Iranian history. Iran’s response to the repeated use of sanctions by Washington has neither involved capitulation nor radicalization. Instead, the regime traditionally sought refuge in vociferous rhetorical denial, while expending considerable efforts to mitigate their impact through a variety of internal and external tactics. In the earliest years after the revolution, these mitigation activities involved both smuggling and the promotion of entire industries to substitute for products, particularly military equipment and arms, previously sourced from the West. More recently, Iran has prepared for a possible embargo on imports of refined petroleum products, through a variety of official schemes to minimize gasoline consumption and establish a strategic stockpile. Over the years, Tehran has also used diplomacy as suggested above to blunt the prospect and impact of sanctions, deliberately expanding its network of trade partners and gradually reorienting its

trade and investment patterns to privilege countries with fewer qualms about the regime's foreign policy adventurism or treatment of its citizens.

Indeed, Iran's post-revolutionary experience appears to contradict the underlying American argument in support of sanctions. The Islamic Republic has experienced a number of episodes of severe economic pressure, but none have generated the kind of foreign policy moderation that the sponsors of ILSA, IRPSA or any of the other manifold punitive measures against Tehran sanguinely forecast. Rather, past periods of external pressure on Iran have facilitated the coalescence of the regime and the consolidation of its public support, and economic constraint has generated enhanced cooperation among Iran's bickering factions. Tight purse strings have forced moderation of Iran's economic policies but only rarely of its political dynamics. The current political context is, of course, unique, but a review of Iranian history tends to undercut the assumption that Tehran will buckle as soon as it feels the pinch.

Making the Most of Sanctions

In terms of influencing Iran, it is clear that sanctions do not offer a cure-all or silver bullet for resolving our longstanding concerns about Iranian policy. At best, they represent one component of an integrated diplomatic strategy that retains both a short-term and a long-term set of objectives for dealing with an Iran that is currently in the midst of dramatic change. At the same time, however, sanctions represent one of the few tools that the United States has at its disposal and, with good judgment and wider international support can help advance our objectives with respect to Iran. To maximize their effectiveness, the following principles should be foremost in the minds of American policymakers.

1. The objectives of sanctions should be clear, limited, and achievable

One generic and obvious rule of sanctions is that they should be tailored to the outcome they are intended to achieve. Today, the primary American imperative relates to Iran's nuclear program; for this reason, our sanctions should be devised to have the maximum potential impact on the constituencies that influence Iran's nuclear policies, such as measures that target the economic interests of the Revolutionary Guard Corps and other critical elements of the hard-line power structure.

However, when it comes to Iran, political imperatives have a way of overshadowing our actual interests. As a result, the discourse surrounding sanctions tends to be articulated in maximalist fashion, with much talk of "crippling" sanctions that target the "Achilles' heel" of the regime. This bombastic rhetoric implies more expansive aims than simply persuading Tehran to constrain its nuclear ambitions. Similar logic appears to explain the broad-based Congressional support for legislation to restrict Iranian imports of refined petroleum products.

A fortuitous byproduct of additional economic pressure may be that it helps to erode the authority and capability of the Iranian regime at some point in the future. Still, the thirty-year endurance of the Islamic Republic suggests that if we set out if the goal as regime change, sanctions will fail. Our rhetoric, and the scope of our new measures, should emphasize that economic pressure is not simply punitive.

For their same reason, our sanctions should have clearly defined end points – to underscore to any rational actors that continue to hold authority within the current Iranian system that cooperation with the demands of the international community will be rewarded. If Iranian leaders are convinced that sanctions are an end in and of themselves, that American-led efforts to squeeze the regime will continue

irrespective of their responses, then any remaining willingness and capacity to compromise on the nuclear issue will be subsumed by defensiveness.

2. Integrate sanctions within the continuum of U.S. diplomacy

By the same logic, U.S. policymakers should reframe the current exhortations on sanctions to emphasize their intended role in facilitating a diplomatic resolution to the nuclear standoff. Although the Obama administration has wisely set aside the unfortunate “carrot-and-stick” phraseology adopted by its predecessor, the apparent replacement rhetoric is not substantially better. The President and a number of senior U.S. officials have frequently referenced the efforts to engage Iran in a diplomatic dialogue as one side of its broader “dual track” approach to Iran. The binary division of American efforts is a fallacy. Positing sanctions as the alternative to negotiations is inaccurate and counterproductive. We should continue to make clear that sanctions do not preclude negotiations, and that diplomacy entails the use of multiple levers of influence.

3. Seek broad international consensus and implementation

The most significant impediment to the current sanctions regime is its primarily unilateral nature, and generating wider support for robust measures at the United Nations Security Council or through a “coalition of the willing” would represent a major step forward in giving sanctions greater potency. The overall amelioration of the American posture in the world as a result of the Obama administration’s diplomatic shifts is a necessary condition for generating more effective economic pressure, but there should be no illusions that this “reset” will be sufficient. Ultimately, as suggested above, most of our allies harbor concerns that sanctions represent an ill-suited tool for persuading the Islamic Republic to change its policies.

Getting and keeping allies on board with a sustained sanctions approach is particularly important because the prevailing diplomatic interplay has demonstrated a zero-sum logic to international cooperation. Defection from the sanctions regime, or even the presumption of noncompliance by other actors, produces a vicious cycle and consistently undercuts any effort to broaden the applicability of the sanctions regime. Tehran has exploited this dynamic, seeking to expand its economic ties in ways that complicate any prospects for Western leverage.

To generate sufficient international support for sustaining meaningful economic pressure on Iran, Washington will have to make a credible case to skeptical allies that any new measures can positively impact the nuclear calculus of Iran’s current leadership. We should have plans in place for limiting or responding to feared backlash by Tehran, whether it is aimed at retaliating against sanctions supporters or further distancing the regime from global nonproliferation norms. We will also have to work assiduously to parry Iranian efforts to undercut international consensus on the utility of economic pressure by dangling new business opportunities and/or new negotiating ploys before U.S. allies.

4. Focus on measures with direct and immediate costs

The sanctions that offer the greatest promise for influencing the calculus of the Iranian leadership are those that actually impinge on current business dealings between the Iranian regime and the rest of the international community. This is the implicit message from the increasingly underwhelming response to redundant American economic restrictions against Iran over the past 30 years and more pointedly of the

regime's intense response to the more recent restrictions on Iran's access to the international financial system implemented by the U.S. Department of the Treasury in recent years. These restrictions have imposed real costs on Iran's ongoing business activities, something that the overlapping unilateral sanctions regime had long since failed to accomplish. The Treasury measures have yet alter Iran's core security policies, but anecdotal evidence suggests that they have begun to alter the demands and preferences of influential supporters of the Iranian regime.

The urgency of Iran's nuclear activities, and the relatively condensed timeframe for averting the worst possible outcome means that immediacy should be the relevant objective of any new economic restrictions. Sanctions have already forced Iran to forfeit some of its economic prospects without substantial internal debate or consequence; as a result of Tehran's lack of access to U.S. -patented liquefaction technology that is an integral component of LNG exports, Iran is unlikely to emerge as a significant player in the international market for natural gas over the near or medium term. And yet these costs – quite substantial in the longer term – have proven relatively bearable because of the regime's tendency toward denial. Any new measures should not target long-term endeavors such as proposed regional pipeline projects, already subject to considerable economic and political uncertainty, but rather should seek to disrupt existing business and apply a new premium to ongoing Iranian trade. In general, even modest penalties that impose immediate costs on current business are far more influential in shaping Iran's choices than measures that defer or deny lucrative long-term investments.

5. Consider the impact on Iran's internal climate

The advent and persistence of a powerful indigenous challenge to the Iranian government represents an incredibly auspicious development for Iran's long-term future. However, it also creates new dilemmas and uncertainties for policymakers seeking to blunt the current regime's nuclear pursuits and support for terrorism. Any consideration of new sanctions should incorporate some discussion of the likely impact on Iran's internal dynamics at this particularly precarious interval.

Some voices within the still-amorphous Iranian opposition have endorsed the utility of intensified sanctions as a means of pressuring the hard-line leadership and further galvanizing popular support against the regime. In contrast, some of the political luminaries associated with the Green Movement have appealed to the international community to avoid economic pressure, arguing that the price will be paid by the Iranian people rather than by the regime or its privileged classes.

Undoubtedly, both these arguments have some validity. Measures that target the burgeoning economic role of the regime's repressive capacity and limit the options of its most notorious human rights abusers could serve a double purpose of pressing the regime to modulate its nuclear course while also underscoring international concerns about its treatment of its own people. It is here that Washington should seek to leverage the newfound support for sanctions in European capitals, by tying 'coalition of the willing' sanctions including travel bans on key IRGC officials specifically to the ongoing crackdown against protestors and dissidents.

Still, a cursory familiarity with recent Iranian history should check any tendency within Washington toward hubris in seeking to use sanctions to inspire domestic unrest. This is particularly important to consider with respect to the debate surrounding efforts to restrict Iranian imports of refined petroleum products. The proposition that such pressure would fuel public anger against the Islamic Republic and help generate its replacement or moderation is romantic but also simplistic. The Iranian leadership is

skilled at deflecting pressure, and its rationing programs and access to smuggling networks will permit the regime to insulate its core constituencies from the impact of reduced supplies. And the notion that the Iranian population would welcome American efforts to cut off supplies of heating oil and gasoline defies common sense.

The reality is that the Iranian domestic climate today is complicated and uncertain. There are no simple solutions for the international community to advance a better outcome. The same is true for the broader landscape of U.S. policy toward Iran. Sanctions can play a role, particularly if they are used judiciously as part of a broader process of diplomatic engagement to coax and coerce Tehran into making meaningful compromises in its approach to the world and its own population.